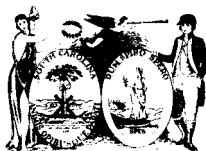


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

September 12, 2001

Mr. Steven Gentzler, CFO  
Connelly Management, Inc.  
410 Mill Street, Suite 201  
Mt. Pleasant, South Carolina 29464

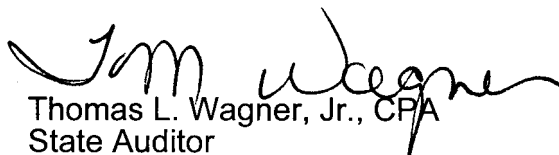
Re: AC# 3-BAY-J8 – Bay View Nursing Center, Inc.

Dear Mr. Gentzler:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph Hayes

**BAY VIEW NURSING CENTER, INC.**

**BEAUFORT, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-BAY-J8**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

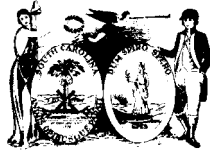
**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



## Office of the State Auditor

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(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 4, 2000

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Bay View Nursing Center, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

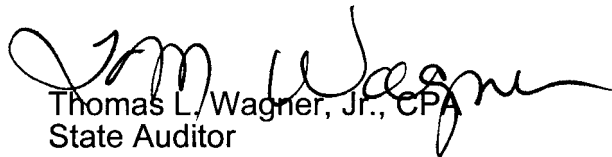
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Bay View Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Bay View Nursing Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 4, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**BAY VIEW NURSING CENTER, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-BAY-J8

Interim reimbursement rate (1)	\$ 86.08
Adjusted reimbursement rate	<u>80.86</u>
Decrease in reimbursement rate	\$ <u><u>5.22</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

**BAY VIEW NURSING CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period Beginning October 1, 1999  
AC# 3-BAY-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.99	\$43.78	
Dietary		8.27	9.69	
Laundry/Housekeeping/Maint.		<u>7.22</u>	<u>8.24</u>	
Subtotal	<u>\$4.32</u>	51.48	61.71	\$51.48
Administration & Med. Records	<u>\$3.70</u>	<u>7.86</u>	<u>11.56</u>	<u>7.86</u>
Subtotal		59.34	<u>\$73.27</u>	59.34
<u>Costs Not Subject to Standards:</u>				
Utilities		2.41		2.41
Special Services		.46		.46
Medical Supplies & Oxygen		4.22		4.22
Taxes and Insurance		1.91		1.91
Legal Fees		<u>.24</u>		<u>.24</u>
<b>TOTAL</b>		<u>\$68.58</u>		68.58
Inflation Factor (3.00%)				2.06
Cost of Capital				7.39
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.40
Cost Incentive				4.32
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.97)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.33</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$80.86</u>

**BAY VIEW NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$2,497,705	\$ -	\$ 30,155 (1) 19,740 (11) 1,018 (11)	\$2,446,792
Dietary	564,052	290 (10)	2,057 (11)	562,285
Laundry	81,324	383 (10)	529 (11)	81,178
Housekeeping	254,668	-	1,905 (11)	252,763
Maintenance	157,754	85 (10)	644 (11)	157,195
Administration & Medical Records	647,782	-	97,296 (2) 14,253 (4) 1,363 (11) 268 (11)	534,602
Utilities	164,063	-	-	164,063
Special Services	26,979	4,044 (3)	-	31,023
Medical Supplies & Oxygen	377,979	30,155 (1)	120,937 (3) 145 (11)	287,052
Taxes and Insurance	156,540	-	26,808 (6)	129,732
Legal Fees	68,287	-	8,923 (5) 42,856 (11)	16,508
Cost of Capital	512,577	-	4,090 (6) 1,491 (7) 2,748 (8) 1,746 (9)	502,502
Subtotal	5,509,710	34,957	378,972	5,165,695
Ancillary	6,412	-	-	6,412



**BAY VIEW NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Non-Allowable	498,121	97,296 (2) 116,893 (3) 14,253 (4) 8,923 (5) 30,898 (6) 2,748 (8) 1,746 (9) <u>70,525 (11)</u>	-       <u>          </u>	841,403       <u>          </u>
Total Operating Expenses	<u>\$6,014,243</u>	<u>\$378,239</u>	<u>\$378,972</u>	<u>\$6,013,510</u>
Total Patient Days	<u>67,978</u>	<u>-</u>	<u>-</u>	<u>67,978</u>
Total Beds	<u>192</u>			

**BAY VIEW NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Medical Supplies Nursing	\$ 30,155	\$ 30,155
	To record provider adjustment to cost State Plan, Attachment 4.19D		
2	Nonallowable Administration	97,296	97,296
	To record provider adjustment to remove working capital interest State Plan, Attachment 4.19D		
3	Nonallowable Special Services Medical Supplies	116,893 4,044	120,937
	To remove special (ancillary) services reimbursed by Medicare and to add Part B Co-insurance State Plan, Attachment 4.19D		
4	Nonallowable Administration	14,253	14,253
	To remove expenses not adequately documented HIM-15-1, Section 2304		
5	Nonallowable Legal	8,923	8,923
	To remove expenses not adequately documented HIM-15-1, Section 2304		
6	Nonallowable Taxes and Insurance Cost of Capital	30,898	26,808 4,090
	To remove mortgage insurance applied to nonallowable borrowing HIM-15-1, Sections 202.2 and 2304		

**BAY VIEW NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Fixed Assets	89,070	
	Other Equity	1,777	
	Accumulated Depreciation		89,356
	Cost of Capital		1,491
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304		
8	Nonallowable	2,748	
	Cost of Capital		2,748
	To adjust depreciation and amortization expense to comply with the capital cost policy State Plan, Attachment 4.19D		
9	Nonallowable	1,746	
	Cost of Capital		1,746
	To adjust capital return State Plan, Attachment 4.19D		
10	Dietary	290	
	Laundry	383	
	Maintenance	85	
	Other Equity		758
	To record start-up costs HIM-15-1, Section 2132		

**BAY VIEW NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable	70,525	
	Legal		42,856
	Nursing		19,740
	Restorative		1,018
	Dietary		2,057
	Laundry		529
	Housekeeping		1,905
	Maintenance		644
	Administration		1,363
	Medical Records		268
	Medical Supplies		145
	To remove cost associated with unfiled claims HIM-15-1, Section 2160		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>469,086</u>	\$ <u>469,086</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**BAY VIEW NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>132</u>	<u>60</u>	
Deemed Asset Value	4,637,160	2,107,800	
Improvements Since 1981	665,251	19,375	
Accumulated Depreciation at 9/30/98	<u>(1,603,797)</u>	<u>(320,252)</u>	
Deemed Depreciated Value	3,698,614	1,806,923	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	233,013	113,836	
Return Applicable to Non-Reimbursable Cost Centers	(2,204)	(1,121)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1,344</u>	<u>636</u>	
Allowable Annual Return	232,153	113,351	
Depreciation Expense	101,968	60,097	
Amortization Expense	3,892	112	
Capital Related Income Offsets	(3,715)	(1,688)	
Allocation of Capital Expenses to Non-reimbursable Cost Centers	<u>(2,490)</u>	<u>(1,178)</u>	<u>Total</u>
Allowable Cost of Capital Expense	331,808	170,694	\$502,502
Total Patient Days (Minimum 97% Occupancy)	<u>46,735</u>	<u>21,243</u>	<u>67,978</u>
Cost of Capital Per Diem	\$ <u><u>7.10</u></u>	\$ <u><u>8.04</u></u>	\$ <u><u>7.39</u></u>

**BAY VIEW NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-BAY-J8

	<u>Old Beds</u>	<u>New Beds</u>
6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$4.89*	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>8.88</u>	\$ <u>8.04</u>
Reimbursable Cost of Capital Per Diem		\$7.39
Cost of Capital Per Diem		<u>7.39</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

\* Cost of Capital and Return on Equity  
Capital Per Diem as recalculated by DH&HS,  
as a result of settlement agreement, and  
communicated to the provider by letter  
dated January 6, 1995.

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